Tax Transparency

Trends in voluntary tax disclosures

Third Edition

Launch

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Foreword

Ten years ago, no one was talking about tax transparency. Nobody would have predicted that, within the decade, there would be almost daily headlines on how much tax large companies pay, legislation to require companies to make a public disclosure of tax strategy, a review of tax reporting by a regulator (the Financial Reporting Council, FRC), and proposals from the EU to require companies to publicly report their profits, tax and other financial information on a country-by-country basis. But that's the environment that companies find themselves in - many companies are making additional voluntary disclosures to present their own view, help inform the debate and to explain their tax affairs more fully.

Some companies are still reacting to this current environment with a piecemeal approach, providing mandatory information together with some voluntary disclosures to provide further context. However, the statistics provided in this report supply evidence of more extensive voluntary disclosures being made in a number of areas, building on momentum that we have seen in previous years.

Companies which are leading in the transparency space are developing a **holistic response** to the ever changing tax landscape. Their voluntary disclosures are focused on which stakeholders are interested in the information and what they want to know.

The demands on tax professionals are changing, and tax is no longer just a private matter dealt with by the tax team with little interaction with the rest of the business. Tax is now additionally a reputational issue, part of the corporate responsibility agenda, and of interest to many, including the board.

Many tax teams are now developing communication strategies for tax, to brief the CEO or CFO in anticipation of potential questions about the company's finances, and in some instances to facilitate proactive statements.

A **communication strategy** should start with a consideration of the identity of the stakeholders and of their needs – transparency to whom and for what purpose? A next step is to understand the mandatory disclosures required and then consider what additional information would be useful and insightful for the stakeholders.

These steps form the basis of our Tax Transparency Framework, a framework which has been developed to help companies think through this challenge and enable them to compare themselves with their peers. We are focused on continuing to develop this framework informed by a wide range of perspectives.

During 2015, there have been new reporting initiatives from a number of bodies (see below), and it's clear that the calls for more information to be disclosed are increasing. But for meaningful transparency we would suggest that there's no 'one size fits all'. Any approach to helpful communication around tax needs to consider what is needed and for whom so that the necessary participants, roles, channels, format and frequency can be established.

Our review this year highlights a trend which shows increasing voluntary disclosures in the FTSE 100 group of companies. Almost two thirds disclosed their approach to tax, while over half now provide commentary on their tax governance. Mandatory disclosures don't always tell the full story and many companies are starting to consider how best to explain their tax affairs, and whether further commentary will enhance transparency and stakeholder understanding of the numbers.

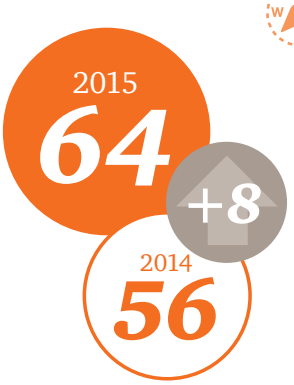
I hope you find the third edition of our tax transparency review of the FTSE 100 helpful. I would be interested in hearing your thoughts on how tax reporting should develop from here.

Andrew Packman
Tax Transparency and Total Tax Contribution Leader

During 2015 and the early part of 2016, new initiatives have been implemented and proposed by a number of bodies:

- ***the UK government*** - announcing legislation requiring large companies to make a public disclosure of their tax strategy as it relates to their UK business
- ***the Financial Reporting Council*** - announcing a thematic review of tax disclosures made by selected companies, specifically the reconciliation from statutory to effective tax rate and disclosures around uncertain tax positions
- ***the OECD*** – finalising Action Point 13 of the Base Erosion and Profit Shifting initiative requiring disclosure of tax, profits and other financial data to tax authorities
- ***the EU*** – announcing proposals for public country-by-country reporting

Approach to tax



The approach to tax was disclosed in some way by **64** companies, almost two thirds of the FTSE 100. This has increased from 2014, when the number disclosing their approach to tax was 56.

Out of 64 companies who disclosed their approach to tax, we found a wide range in content. Half provided further information on how their tax strategy is aligned to their wider business principles and 16 companies included a discussion of how tax interacts with their business model.

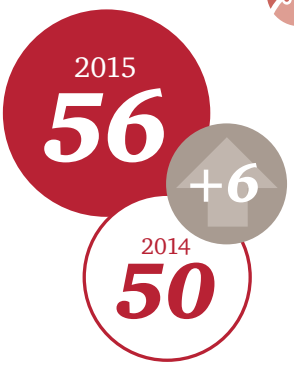
Thirty-three of the approach to tax disclosures were found in annual reports. Of the remaining disclosures, thirteen were made in a separate tax policy document, eight companies included the disclosure on a webpage, six published standalone tax reports and four disclosures were found in corporate responsibility reports.

For accounting periods starting after Royal Assent of the 2016 Finance Bill, disclosure of the approach to tax will be mandatory for this group of companies, and the increase compared to 2014 reflects the momentum in this direction in preparation for what will be required.

Benefits of disclosing an approach to tax

- To address interest from stakeholders in the principles the company applies
- To demonstrate how the tax strategy aligns with the wider business strategy.

Tax governance



Tax governance refers to the company's approach to risk management and the responsibility for oversight of tax affairs. We identified **56** companies providing some details of tax governance procedures, which is an increase of six compared to the 50 who disclosed this in 2014.

All companies noted that the board or audit committee had responsibility for approving or reviewing the tax strategy. Eleven of these companies discussed the strategy being achieved or delivered, whilst 18 companies provided further detail, covering areas such as the risk profile or tolerance, the control framework in place, and the alignment of tax governance to governance in the wider business.

Market analysts and other stakeholders tell us that they are increasingly looking for confirmation of whether companies have appropriate governance systems and controls in place. They are interested in whether the tax strategy and risks are discussed outside the tax department – this may be in the form of a board-reviewed tax policy or that tax has been discussed by the audit committee during the year.

Companies may be challenged by stakeholders over the details of their tax governance. It is vital that there are underlying processes and controls which support public disclosures around strategy and governance, providing confidence in this new area of mandatory disclosure.

Benefits of disclosing approach to tax governance

- To give comfort to investors that tax affairs are overseen at an appropriate level
- To provide insight into the controls in place to manage tax risks.

Cash tax reconciliation

Reconciliation of cash tax to the tax charge is a voluntary disclosure which sets out the differences between the tax charge and the corporation tax paid by the group. It's a disclosure made by relatively few companies but it helps those seeking to explain to stakeholders how the tax charge in the accounts relates to the tax paid to the Government.

We found that **18** companies in the FTSE 100 provided the explanation of the difference between these two numbers, which is an increase from the 14 companies reporting for 2014 year-ends.

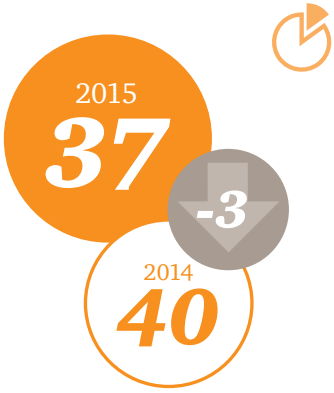
Six of these companies disclosed a numerical reconciliation using a table or a 'waterfall' chart, while the others gave a descriptive explanation.

This disclosure can help to enhance the understanding of the impact of the payments on account regime and deferred tax on the company's tax charge.

Benefits of disclosing a cash tax reconciliation

- To explain how actual tax paid to revenue authorities relates to the financial results of the operations
- To give greater visibility over corporation tax paid.

Total Tax Contribution



Our 2015 survey of the 100 Group's Total Tax Contribution revealed that for every £1 borne in corporation tax there was an additional £4.46 borne in other business taxes. Employers' National Insurance continues to be the largest tax cost to the UK's biggest public companies.

Companies pay far more in taxes than just corporation tax. **Total Tax Contribution** (TTC) quantifies the total amount of taxes generated by a company and contributed to the public finances. **It clearly distinguishes between taxes borne by companies and taxes collected on behalf of others.**

We found that **37** companies disclosed TTC data, often analysing this number by the types of taxes paid. The decrease of three companies from the 40 that disclosed this in 2014 is due to the changes in composition of the FTSE 100. A further eight companies quantified some other taxes beyond corporation tax.

With country-by-country tax reporting regimes currently focused on corporation tax, companies are voluntarily disclosing information on their TTC to help improve understanding and provide visibility over the wider contribution they make to the public finances. Sector taxes such as irrecoverable VAT (for banks) and business rates (for retailers) can be more significant than corporation tax and TTC helps provide visibility over those taxes.

Some companies disclose this figure within a narrative, but many show the contribution using pie charts and graphs.

TTC is a significant part of a businesses' wider contribution to the economy. Almost half of the FTSE 100 include tax in some form of economic value added disclosure, with a number combining TTC, economic impact, social impact and environmental impact.

Our survey of the 100 Group explores the Total Tax Contribution and wider economic impact of the UK's largest listed companies. www.pwc.co.uk/100group

Benefits of disclosing Total Tax Contribution

- To understand and communicate the breadth and amount of taxes generated by the business
- To explain tax as part of an economic impact measurement disclosure.

Geographic reporting

Geographic reporting remains on the agenda for governments, regulatory and supranational bodies worldwide, and civil society organisations. There is increased focus on whether tax provisions and payments made by large multinationals reflect their commercial operations in each jurisdiction where they operate.

We found that **28** companies are currently providing some breakdown of their taxes around the world, either by region or country. We observed an increase compared to 2014 when the number reporting this was 25.

With the requirements to disclose country-by-country tax data to tax authorities under BEPS coming into force next year, and continued pressure from the EU to make some form of country-by-country reporting a public requirement in the future, many companies in the FTSE 100 will have been performing 'dry-run' exercises to gather this data for 2015. This allows companies to assess their position internally while considering whether, and how, to make these disclosures public in future years.

Seventeen companies included some discussion around country-by-country reporting requirements in their public reporting. For eight of these, the discussion was around the forthcoming requirements under BEPS, and for the remaining companies it was around sector-specific initiatives.

Of the 28 that provided geographic reporting, eight are **extractive companies** and five are **banks**. This reflects the mandatory reporting regimes (mentioned above) that already apply to these sectors.

Benefits of disclosing tax on a geographic basis

- To communicate the contribution to public finances in different territories
- To supplement any corporate and social responsibility reporting around specific territories.

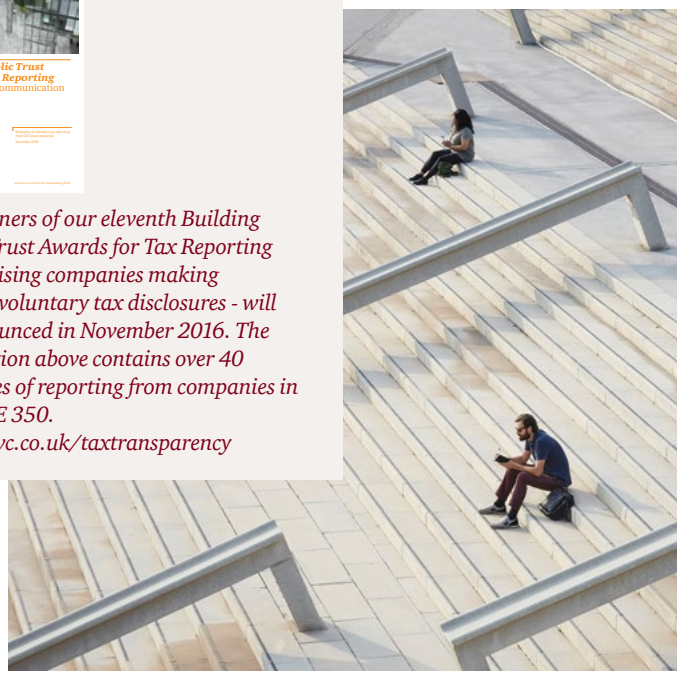
The FTSE 100 continue to show an increasing trend in voluntary tax disclosures – as they prepare for forthcoming requirements to disclose their tax strategy and tax governance details, and respond to calls from the EU to make country-by-country tax figures public. The leaders in this area are considering the business case and stakeholder areas of interest as part of the decision making process, which doesn't always lead to increased disclosure but in many cases leads to the development of robust control frameworks and internal communication around tax.

We expect the trend in tax transparency to continue in 2016, and have already seen early signs of companies changing their disclosures of tax numbers in light of the FRC review.

Our methodology

- We reviewed the annual reports for financial years ending between January and December 2015, for all companies listed in the FTSE 100 at 31 March 2016. Figures for 2014 are for all companies listed in the FTSE 100 at March 2015; therefore trends represent the FTSE 100 group at the time of review, and are not on a like-for-like basis year on year.
- We reviewed the most recent corporate and social responsibility report available. We also explored each company's website, searching for additional tax reporting information.
- Our review is strictly limited to publicly available information and uses a set of more than 30 broadly defined tax transparency indicators, which form part of our Tax Transparency Framework. Five of these areas are discussed in detail in this publication.

The winners of our eleventh Building Public Trust Awards for Tax Reporting - recognising companies making leading voluntary tax disclosures - will be announced in November 2016. The publication above contains over 40 examples of reporting from companies in the FTSE 350.
www.pwc.co.uk/taxtransparency



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